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RESEARCH REPORTS

COMING EFFECTS OF CURRENT EVENTS

The Cash Budget

Accompanying the Treasury's recent announcement of a revised budget for fiscal 1954 was the usual confusion as to what the new estimates would mean as far as the so-called cash budget is concerned. Recent proposals such as those by Beardsley Ruml, which to many individuals suggested that Federal deficits could be avoided simply by switching to a "cash" budget, have added to the confusion. A first step in helping to clear up this confusion is to break down the present financial operations of the Federal Government into three major phases: (1) the Federal or administrative budget; (2) trust-fund accounts; and (3) public-debt operations.

Federal Budget

The Federal budget includes all revenue received by the Government and most Federal expenditures. The revenue received is derived almost entirely from taxes imposed on individuals and businesses; funds acquired through the incurring of a liability on the part of the Government, such as in the sale of Government securities, are *not* included. The Federal outlays included consist of defense and defense-related expenditures, foreign and veterans' aid, intra-Governmental payments, various special aid programs, interest payments on the public debt (including accrued interest), and the ordinary administrative expenditures of the Government.¹ (A major portion of trust-fund receipts, in effect, are not included, inasmuch as transfers to the trust accounts are deducted from total receipts.)

According to the Budget and Accounting Act of 1921, the President of the United States is required to present at the beginning of each calendar year his estimate of the Federal expenditures and appropriations necessary in order to carry out authorized programs and to present estimates of the receipts expected under the existing and/or proposed revenue laws. The President is also required to report the amount of the Federal receipts and expenditures during the preceding year.

The Federal budget is designed to show the extent to which Federal expenditures and accrued liabilities have been and will be met from direct revenues.

Trust-Fund Accounts

Expanding activities of the Federal Government during the 1930's resulted in the enlargement of existing and

¹The expenditures include accrued liabilities. A significant portion of these accrued noncash payments is the interest accrued on Series E and F United States savings bonds. The interest due on these bonds is entered semiannually as an expenditure for servicing the public debt. Actually no cash is paid out until the bonds are redeemed, and those payments are indicated in the accounting of public-debt operations, not in the administrative budget.

the creation of new trust funds for carrying out various Government programs. Among these funds at present are the Federal Old-Age and Survivors Insurance Trust Fund, Railroad Retirement Account, Unemployment Trust Fund, National Service Life Insurance Fund, Government Life Insurance Fund, Government employees retirement funds, and a few others.

A portion of trust-fund receipts represents Federal and State contributions, another portion reflects interest on funds invested in Government securities, and the remainder consists of direct taxes on individuals and businesses.

Recently, total trust-fund receipts have been exceeding total expenditures by approximately \$4,000,000,000 a year. The excess of receipts over expenditures has been invested in special interest-bearing issues of Government securities, and the Government has used these excess receipts to meet other expenditures. These issues are either demand or 1-year issues, but are continually being renewed. As of July 31, 1953, the total amount of public debt outstanding in the form of special issues to trust funds was \$40,594,000,000. When expenditures of the trust funds exceed receipts at some time in the future and the special issues have to be redeemed in order to make payments, the necessary funds will have to be raised through taxation or by means of additional borrowing.

Public-Debt Operation

During the last decade the sales of Government securities to the public and the banks have become a major source of Federal receipts, and Federal public-debt operations now play an important role in Federal finances. Receipts from the sale of Government securities to either the public in general or the banks are not included in the Federal budget. However, the net funds received are used to meet Government expenditures. These expenditures are included in the Federal budget.

Concepts of the Cash Budget

The purpose of calculating the cash surplus or deficit is to indicate to what extent the Government may need to engage in public-debt operations and is one of the useful tools in analyzing the possible inflationary or deflationary effect of Federal financial operations. In order to ascertain the final inflationary or deflationary effects of the Government's total financial operations, analysis of the Government's cash position as well as analysis of the public-debt operations is necessary.

The Federal budget does not summarize the actual cash payments and cash receipts during the year. For example, present total cash expenditures are less than total budget expenditures (accrued payments and intragovernmental payments are shown only in the latter); total

cash receipts are much greater than total budget receipts (revenues from Social Security taxes are excluded, in effect, from the Federal budget).

The Treasury's "cash budget," which is published regularly in its *Treasury Bulletin*, is derived from the following calculations: all noncash receipts and noncash payments included in the budget are eliminated; all non-cash receipts and noncash expenditures included in trust-fund operations are eliminated; the remaining cash receipts and cash payments in the budget are combined with the remaining cash receipts and cash payments of the trust funds, and the net result (adjusted for the clearing-account balance) is the "cash budget" surplus or deficit.

The "cash budget" concept as developed by the Treasury does not include the results of Federal debt operations. Once the receipts from the sale of Government securities are used by the Treasury to meet regular expenditures, they appear in the budget as cash payments. However, receipts from the sale of Government securities and expenditures for repayment of maturing issues are not included in the cash budget. Thus the actual cash operations of the Treasury are not indicated completely.

The "cash budget" as developed by the Institute and discussed in our articles in the *Research Reports* when we mention the "cash operations" of the Treasury, includes the net effect of public-debt operations. In our concept the net cash surplus or deficit of Federal fiscal activities is equal to the increase or decrease in the Treasury's general fund balance.

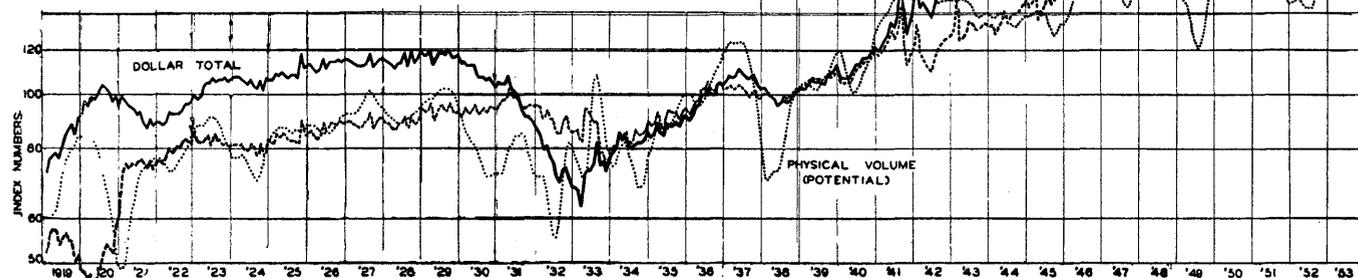
Conclusions

The cash budget is a useful tool in analyzing the inflationary aspects of Federal financial operations. However, it does not, as some individuals believe, eliminate the need for more or less taxes; nor does it eliminate any portion of Federal obligations. Funds for the benefit payments involved in various Federal programs will not be made more or less available by adoption of a cash budget.

What a cash budget analysis contributes to the recently announced estimates of the Federal Budget is to show more clearly that the necessary financing by the Treasury in fiscal 1954 apparently will not be so great that substantial inflation from this source is assured. It would appear that relatively little inflation can be expected to result from the Federal Government's fiscal operations in the present fiscal year.

Statistical Indicators

Since our article a week ago, recent data indicate three significant developments among the leading indicators. Industrial common-stock prices have fallen to the lowest level this year; new orders for durable goods were revised upward substantially during June but preliminary data for July indicate a decrease to the lowest level this year; new incorporations, according to preliminary data, increased further during August to the highest level this



year. (Liabilities of commercial failures are discussed elsewhere in this issue.)

Thus, the week's events lead us to believe that a cyclical recession in general business activity in the near future is even more probable than we had previously indicated.

SUPPLY

Industrial Production

Steel-ingot production, scheduled at 95.4 percent of capacity for the week ended September 5, 1953, was 2 percent more than the revised figure for the preceding week and was 4 percent more than production in the corresponding week last year.

	1929	1932	1937	1938	1952	1953
Percent of Capacity†	88*	14	83	45	99*	95p
Weekly Cap. (Million Tons)	1.38	1.52	1.51	1.54	2.08	2.25
Production (Million Tons)	1.22	.21	1.25	.69	2.06	2.14

Automobile and truck production in the United States and Canada during the week ended August 29, 1953, was estimated at 158,337 vehicles, compared with a revised total of 163,625 vehicles during the previous week.

	1929	1932	1937	1938	1952	1953
Vehicles (000 omitted)†	118	25	83	19	123	158p

Electric-power production in the week ended August 29, 1953, increased to 8,539,557,000 kilowatt-hours from 8,431,603,000 kilowatt-hours in the previous week.

	1929	1932	1937	1938	1952	1953
Billion Kilowatt-Hours†	1.76	1.44	2.35	2.20	7.65	8.54

Lumber production in the week ended August 22, 1953, increased. *The New York Times* seasonally adjusted index was 8 points above that for the preceding week but was 7 points below that for the corresponding week last year.

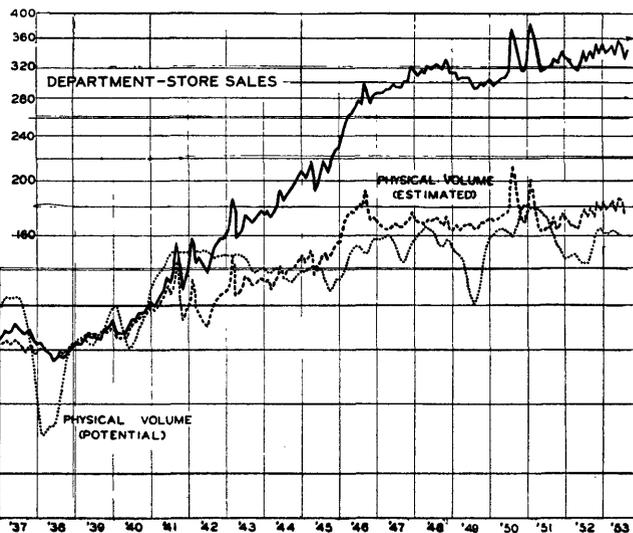
	1929	1932	1937	1938	1952	1953
<i>The New York Times</i> Index†	135	35	85	96	119	112

†Latest weekly data; corresponding weeks of earlier years
p=preliminary; *holiday

DEMAND

Department-Store Sales

Our preliminary estimate of the seasonally adjusted index of department-store sales (based on dollar value) increased nearly 1 percent during August. (Revised data, which revealed that a 3-percent decrease occurred during July, were received too late to change the 6-percent decrease that is shown on the chart.) Estimated August sales were 1 percent more than those of a year



earlier but were 3 percent less than sales during May, when the 1953 peak was reached.²

The index of prices of goods sold in department stores decreased during July to the lowest level since December 1950. However, price changes during 1953 as well as during the second half of 1952 were relatively slight.

The index of the physical volume of department-store sales (which is calculated by dividing the dollar-value index of sales by the index of prices) decreased 2 percent during July from the revised June figure.³ Since early 1952, when prices of department-store goods virtually leveled off, the physical-volume index shown on the chart has paralleled the dollar-sales index.

July data for the potential volume of department-store sales (which are based on the production of goods available for sale in department stores and reflect the estimated volume of goods available for sale in department stores) were not available when the accompanying chart was prepared. The trend of the series since November 1952 has been slightly downward.

In spite of the fact that disposable personal income increased during the first half of the year (the increase from the fourth quarter of 1952 through the second quarter of 1953 was 2 percent), the department-store-sales series has more or less leveled off. On the other hand, total retail sales have increased slightly through the first half of 1953. The divergent trends of department-store and retail sales apparently reflect the decreased importance of department stores in accounting for total retail sales. The large volume of automobile sales during the first half of the year presumably was responsible to a great extent for this development during the first half of 1953. However, as we have mentioned in previous articles, other factors probably have contributed.

In order to help readers interpret more accurately the week-to-week reports that appear in various newspapers and in these bulletins, we have calculated that during September an average increase of nearly 5 percent in the comparison of weekly totals with sales during the corresponding weeks of September 1952 will maintain the seasonally adjusted index at the August level.

*Department-store sales apparently have resumed a slight downward trend in recent months. However, a substantial decrease in department-store sales does not seem probable in the next few months at least. Thereafter, much will depend on the level of general business activity.*⁴

²Readers may note in the accompanying chart that some of the erratic fluctuations that had been shown there in recent months have been smoothed considerably as final data became available. The Federal Reserve System's compilers of department-store-sales statistics recently revised the seasonal factors for this series.

³The 6-percent change shown in the accompanying chart was based on preliminary data.

⁴Department-store sales usually have not turned downward until some months after the downturn in general business activity.

Latest Weekly Data

Department-store sales for the week ended August 29, 1953, were unchanged from sales in the preceding week and were 9 percent less than sales in the corresponding week last year.

PRICES

Consumers' Prices

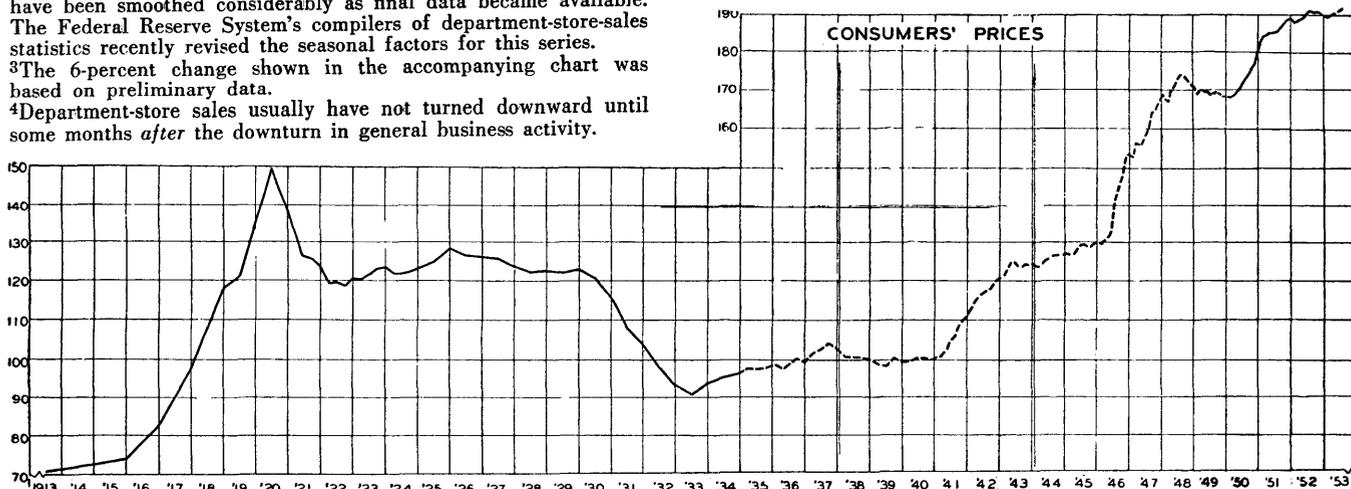
The Bureau of Labor Statistics' index of prices of goods bought by moderate-income city families increased slightly during the month ended July 15 to an alltime high. Since February 1953, when the 1953 low was reached, the index has increased slightly more than 1 percent. The July index was nearly 13 percent above that for June 1950, when the Korean War started.

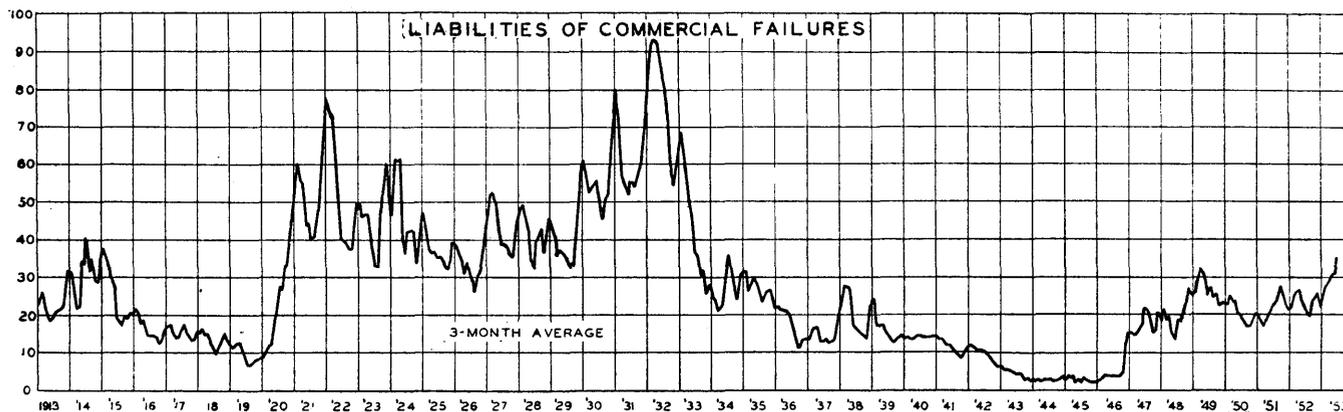
Minor price increases for medical care, housing, and transportation were primarily responsible for the rise of the over-all index during July.

July food prices, which were virtually unchanged from those during June, were 2 percent above those in February (when the 1953 low was reached) but were 2 percent lower than those in July 1952. Food-price increases in July included higher prices for meats, poultry, fish, eggs, and fresh milk; these increases were counterbalanced by decreases in prices of fresh vegetables and fruits. Retail food prices increased in 27 of the 46 cities surveyed during July.

July apparel prices, which were relatively unchanged from those during June, were about 1 percent less than those in the corresponding month of 1952 and were nearly 5 percent below the postwar high reached in September 1951. Apparel prices have been virtually unchanged during the first 6 months of 1953. During July lower prices for shoes and several items of women's and girls' clothing counterbalanced slightly higher prices for men's and boys' apparel.

Housing costs reached an alltime high in July, about 1 percent above those at the beginning of the year. Residential rents, one of the subcomponents of the housing index, increased nearly 3 percent during the same period. The greatest increase in residential rents occurred in May and July, the period during which local rent restrictions were eased and Federal rent controls were discontinued. The largest rent increases were reported in Atlanta, Cincinnati, Detroit, Kansas City, and St. Louis. Prices of solid fuels and fuel oil, another subcomponent of the housing index, rose nearly 2 percent during July; prices for housefurnishings, gas, and electricity were virtually unchanged.





Transportation costs also increased to an alltime high in July but were only 1 percent above the level at the beginning of the year. Further decreases occurred in used-car prices during the month but were more than counterbalanced by higher prices for gasoline and motor oil in most parts of the country.

Costs of medical care rose to an alltime peak in July, 2 percent above those at the end of 1952 and 3 percent greater than those in July 1952. Medical-care costs have steadily increased from September 1949, approximating the rate of increase of residential rents. July increases of medical costs were entirely attributable to higher doctors' fees.

Relatively gradual price decreases in apparel, house-furnishings, and foods during the past year have not counterbalanced increases in the prices of transportation, personal services, and residential rents. Similar movements of prices of these various goods and services may continue for some time.

Commodities at Wholesale

	1952 Sept. 3	1953 Aug. 27	1953 Sept. 3
(August 1939=100)			
Spot-Market Prices (22 basic raw materials)	292	274	276
Commodity Futures Prices (Dow-Jones Daily Index)	366	327	329

BUSINESS

The Trend of Commercial Failures

Liabilities of commercial failures, which decreased 1 percent during June, increased 27 percent during July.⁵ The liabilities involved in commercial and industrial failures during that month totaled \$41,324,000, compared with \$32,379,000 during the preceding month and with \$22,789,000 during the corresponding month a year earlier. The number of failures in July was 724, compared with 817 in June and 580 in July 1952.

July liabilities of \$41,324,000 were the largest since December 1934 and were 11 percent more than the previous post-World War II peak reached in March 1949. Although seasonal adjustment of this series is difficult, the July increase was unusually high for this month of the year. Substantial increases in failures of manufacturers, mining companies, and wholesalers were primarily responsible for the over-all increase. Average li-

abilities per failure increased sharply to \$57,100, compared with \$39,600 in June and \$39,300 in July 1952.

The series shown on the accompanying chart is a 3-month moving average (plotted at the midmonth) of liabilities of commercial failures. The June average increased 15 percent to a post-World War II high. The June figure was 28 percent above the Korean War peak reached in September 1951 and was 80 percent above the 1952 low reached in August. The June average was 10 percent above the previous post-World War II peak reached in March 1949.

The Department of Commerce recently published some interesting data on the survival of new businesses. The figures reflect the experience of 7,221,000 businesses founded or bought during 1944-51. Only 28 percent of these businesses were still operating at the end of 5 years. The corresponding percentage after 1 year was 68; after 2 years, 50; 3 years, 38; and 4 years, 32. Some lines of business were more favorable for beginners than others. After 2 years the following percentages of newly bought or founded businesses were still operating; wholesale trade, 66; finance, insurance, and real estate, 66; construction, 61; transport and communication, 58; services, 51; manufacturing, 47; mining and quarrying, 45; and retail trade, 44.

Conclusions

The recent upward trend of failures, which already has continued for 6 months, increases the expectation of a downturn in general business activity later this year or early in 1954.⁶

COMMERCIAL FAILURES, NUMBER AND LIABILITIES

	Number of Failures			Liabilities of Failures (000 omitted)		
	1951	1952	1953	1951	1952	1953
January	775	671	647	\$21,685	\$26,208	\$23,309
February	599	619	691	16,009	19,474	27,273
March	732	715	739	17,652	29,232	31,082
April	693	780	693	17,064	29,500	27,520
May	755	638	697	23,504	21,193	32,789
June	699	671	817	22,733	21,222	32,379
July	665	580	724	21,088	22,789	41,324
August	678	594		26,417	16,322	
September	620	539		26,643	20,138	
October	644	621		30,417	35,049	
November	587	590		17,567	18,757	
December	612	583		19,403	23,400	
	8,059	7,601		\$240,779	\$283,284	

⁵Failures data are compiled by Dun & Bradstreet, Inc., and include discontinuances following assignment, voluntary or involuntary petition in bankruptcy, attachment, execution, foreclosures, and voluntary withdrawal from business with known losses to creditors.

⁶We have mentioned on previous occasions that the inverted seasonally adjusted monthly series of liabilities of commercial and industrial failures is one of the earliest and most consistent indicators of cyclical changes of business activity; the series usually leads cyclical peaks of general business activity by an average of nearly 11 months.